

Message Text

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ACTION NEA-10

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FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 2257

LIMITED OFFICIAL USE SECTION 1 OF 2 KATHMANDU 3123

E.O. 11652: N/A

TAGS: EFIN, NT

SUBJ: FY 76 BUDGET, GOVERNMENT OF NEPAL

1. SUMMARY: ON JULY 6, 1975, THE STATE MINISTER FOR FINANCE, DR. BHEKH BAHADUR THAPA, SUBMITTED THE GOVERNMENT OF NEPAL'S FY 76 BUDGET TO THE NATIONAL PANCHAYAT. THE BUDGET CALLS FOR TOTAL EXPENDITURES OF RS 2,146,933,000 (APPROXIMATELY DOLLARS 214 MILLION) DURING FY 76, 43 PERCENT HIGHER THAN THE REVISED ESTIMATE FOR FY 75. THE BULK OF THIS INCREASE IS PROJECTED FOR DEVELOPMENT EXPENDITURES WHICH ARE ESTIMATED AT RS 1,455,847,000 (APPROXIMATELY DOLLARS 145 MILLION) FOR FY 76, OR MORE THAN 50 PERCENT HIGHER THAN THE REVISED ESTIMATE FOR FY 75. THESE EXPENDITURES OF RS 2,147 MILLION WILL BE FINANCED AS FOLLOWS: RS 1,242 MILLION FROM HMG REVENUE; RS 200 MILLION FROM HMG INTERNAL BORROWING; RS 427 FROM FOREIGN GRANTS; AND RS 278 FROM FOREIGN LOANS. END SUMMARY.

2. THE BUDGET SPEECH PRESENTED BY FINANCE MINISTER THAPA EMPHASIZES THE ECONOMIC PROBLEMS FACING NEPAL, STATING THAT THE SITUATION IS NOT YET QUOTE SATISFACTORY UNQUOTE.

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(TEXT BEING POUCHED) THE TONE, HOWEVER DWELLS ON THE

POSITIVE AND FREQUENT REFERENCES ARE MADE TO SUCCESSES DURING THE PAST YEAR: E.G., REDUCTION IN EXPANSION OF THE MONEY SUPPLY TO LESS THAN 10 PERCENT; INCREASE IN AG. DEVELOPMENT BANK LOANS FROM RS 76 MILLION IN FY 74 TO RS 180 IN FY 75; INCREASED FIXED AND SAVINGS DEPOSITS; AND IMPROVED REVENUE COLLECTION IN FY 75. THE SPEECH ALSO REINFORCES OTHER GOVERNMENT STATEMENTS ON IMPROVING EQUITY AND RELIEVING THE HARDSHIPS FACED BY LOW INCOME GROUPS.

3. REGULAR EXPENDITURES IN FY 76 ARE EXPECTED TO INCREASE AT APPROXIMATELY 20 PERCENT, OR AT THE SAME RATE AS IN RECENT YEARS. OF SOME INTEREST, HOWEVER, ARE THE PROJECTED INCREASES IN EXPENDITURES FOR POLICE AND DEFENSE. THE FY 75 REVISED ESTIMATE SHOWS A TOTAL OF RS 152 MILLION OR 26 PERCENT OF THE REGULAR BUDGET: RS 55 MILLION FOR POLICE AND RS 97 MILLION FOR DEFENSE. THE FY 76 ESTIMATE SHOWS A TOTAL OF RS 209 MILLION OR 30 PERCENT OF THE REGULAR BUDGET: RS 63 MILLION FOR POLICE AND RS 146 MILLION FOR DEFENSE. EXPENDITURES FOR POLICE AND DEFENSE, HOWEVER, REMAIN LESS THAN 10 PERCENT OF TOTAL EXPENDITURES (REGULAR AND DEVELOPMENT). COMMENT: WE UNDERSTAND THAT INCREASES IN DEFENSE EXPENDITURES RELATE BOTH TO THE HIGH COSTS OF SUPPLIES AND UNIFORMS AND TO THE TRANSFER OF THE ROYAL FLIGHT TO THE ARMY. WE HAVE NO REASON TO SUPPOSE THAT THE INCREASE IS IN ANTICIPATION OF MAJOR WEAPONS PURCHASES.

4. DEVELOPMENT EXPENDITURES ARE PROJECTED TO INCREASE BY MORE THAN 50 PERCENT: I.E., FROM A FY 75 REVISED ESTIMATE OF RS 926 MILLION TO RS 1,456 MILLION IN FY 76. LOOKING AT INDIVIDUAL SECTORS, THE GREATEST INCREASE IS PROJECTED FOR AGRICULTURE: FROM AN FY 75 REVISED ESTIMATE OF RS 91 MILLION TO RS 244 MILLION IN FY 76. THIS EMPHASIS ON AGRICULTURE INDICATES HMG'S POLICY TO CHANNEL RESOURCESRLBWO THE MOST PRODUCTIVE INVESTMENT OPPORTUNITIES. WITH THIS CONSIDERABLE ALLOCATION TO THE AGRICULTURE SECTOR, THE MINISTER OF FINANCE STATES QUOTE I EXPECT AN INCREASE IN AGRICULTURE PRODUCTION UNQUOTE. SIMILARLY, EXPENDITURES FOR IRRIGATION ARE SCHEDULED TO NEARLY DOUBLE: FROM RS 69 MILLION TO RS 136 MILLION IN FY 76. EXPENDITURES FOR EDUCATION, DRINKING WATER, LIMITED OFFICIAL USE

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FORESTRY, AND ELECTRICITY ARE ALSO SCHEDULED TO MORE THAN DOUBLE. ON THE EXPENDITURE SIDE, IT IS MOST INTERESTING TO NOTE A SLOWDOWN IN EXPENDITURES FOR THE TRANSPORTATION SECTOR. WHILE STILL THE LARGEST SINGLE EXPENDITURE LINE ITEM, THE BUDGET SPEECH SAYS THAT THE MAJOR PORTION OF ROAD BUILDING FUNDS WILL BE ALLOCATED TO ROADS ALREADY BEGUN, NOT FOR NEW CONSTRUCTION. AVIATION EXPENDITURES ARE PROJECTED TO DECREASE FROM A REVISED ESTIMATE OF

RS 46 MILLION IN FY 75 TO RS 39 MILLION IN FY 76. THIS
PROBABLY INDICATES NO MAJOR AIRCRAFT PURCHASES IN FY 76.

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5. ON THE RESOURCE SIDE, THE FY 76 HMG REVENUE ESTIMATE IS RS 1,242 MILLION (APPROXIMATELY DOLLARS 124 MILLION) OR NEARLY 58 PERCENT OF TOTAL EXPENDITURES. THIS IS AN INCREASE OF APPROXIMATELY 23 PERCENT OVER THE FY 75 REVISED ESTIMATE. NO NEW MAJOR TAXES ARE PROJECTED, ALTHOUGH THERE WILL BE SOME RELATIVELY MINOR CHANGES IN RATES ON INCOME, PROPERTY, EXCISE, AND CUSTOMS DUTIES. ALL OF THE CHANGES ARE EQUITY-ORIENTED: E.G., THE EXEMPTION LEVEL IS RAISED FOR THE INCOME TAX; IMPORT DUTIES WILL BE INCREASED FOR LUXURY GOODS; IMPORT DUTIES WILL BE ELIMINATED FOR SEVERAL MASS CONSUMPTION GOODS (SALT, COKE, AND CHARCOAL); AND EXCISE DUTIES WILL BE INCREASED ON CIGARETTES, LIQUORS, STAINLESS STEEL UTENSILS, AND OTHER NON-ESSENTIALS.

6. WITH REGARD TO REVENUE, IT IS PARTICULARLY INTERESTING TO NOTE THE INCREASED IMPORTANCE OF SALES TAXES IN THE TAX STRUCTURE. IN FY 74, SALES TAX RECEIPTS WERE RS 98 MILLION OR 13 PERCENT OF TOTAL REVENUE. IN FY 75, THIS INCREASED TO RS 188 MILLION OR 18 PERCENT OF TOTAL REVENUE. THE FY 76 ESTIMATE SHOWS SALES TAX RECEIPTS AT RS 210 MILLION OR 17 PERCENT OF TOTAL REVENUE. THE SIGNIFICANT INCREASE IN FY 75 WAS

DUE PRIMARILY TO NEW TAXES ON SUGAR, RICE AND PETROLEUM PRODUCTS INTRODUCED DURING THE YEAR.THE INCREASED TAX LIMITED OFFICIAL USE

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ON SUGAR WILL BE REMOVED IN FY 76.

7. INTERNAL BORROWING OF RS 200 MILLION IS PROJECTED DURING FY 76, IN CONTRAST TO RS 100 MILLION DURING THE PREVIOUS TWO YEARS. THE REST OF THE BUDGET WILL BE FINANCED WITH FOREIGN GRANTS AND LOANS TALLING AN ESTIMATED RS 705 MILLION, OF WHICH RS 427 IS GRANT AND RS 278 IS LOAN. FOR THE FIRST TIME, THE BUDGET SPEECH DOES NOT DETAIL PROJECTED FOREIGN ASSISTANCE BY DONOR. IN HIS PRESS CONFERENCE, THE FINANCE MINISTER SAID THIS WAS TO PROVIDE FLEXIBILITY SINCE CERTAIN DONORS WERE NOT YET ABLE TO MAKE FINAL COMMITMENTS. ACCORDING TO INDIAN PRESS REPORTS HE INDICATED THAT INDIA WAS EXPECTED TO REMAIN LARGEST BILATERAL DONOR.

8. THE BUDGET SPEECH ALSO COVERED FOREIGN EXCHANGE EARNINGS AND EXPENDITURES. THE FY 75 REVISED ESTIMATE SHOWS A DEFICIT IN CONVERTIBLE FOREIGN EXCHANGE OF RS 298 MILLION OR APPROXIMATELY DOLLARS 29 MILLION AS AGAINST SURPLUS OF RS 184 MILLION (\$18 MILLION IN FY 74). THE BUDGET SHOWS THAT INCREASED IMPORTS WERE THE MAJOR REASON FOR THE DEFICIT: I.E., IMPORTS INCREASED FROM RS179 MILLION IN FY 74 TO RS 705 IN FY 75. THIS INCREASE INDICATES THE MAGNITUDE OF UNIQUE FY 75 FOREIGN EXCHANGE EXPENDITURES -- PRIMARILY EXCEPTIONALLY HIGH IMPORTS OF DEVELOPMENT GOODS SUCH AS CEMENT FROM THIRD COUNTRIES IN ANTICIPATION OF SHORTAGES AND PRICE RISES IN INDIA. THE FY 76 ESTIMATE SHOWS IMPORTS FALLING TO RS 573 MILLION AND EXPORTS RISING WITH THE OVERALL FOREIGN EXCHANGE DEFICIT GOING DOWN TO RS 86 MILLION (\$8.5 MILLION). SINCE INVENTORIES OF DEVELOPMENT GOODS ARE NOW HIGH AND THERE IS A POSSIBILITY OF NEGOTIATING LOWER PRICES FOR INDIAN GOODS, THE GOVERNMENT OBVIOUSLY HOPES TO KEEP THE DEFICIT WITHIN MANAGEABLE BOUNDS DURING THE COMING YEAR. &8;3, RISING WORLD PRICES AND AN ACCELERATING DEVELOPMENT PROGRAM, WE ARE SCEPTICAL THAT THE DEFICIT CAN IN FACT BE KEPT WITHIN PLANNED LIMITS.

9. COMMENT: OVERALL THE BUDGET STRIKES US AS A SENSIBLE AND CONSERVATIVE DOCUMENT. ON THE BASIS OF LIMITED OFFICIAL USE

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PAST TRENDS WE ARE DOUBTFUL EXPENDITURES WILL BE AS HIGH AS
THOSE ESTIMATED. WE WELCOME NEW EMPHASIS ON AGRICUL-
TURE AND DEEMPHASIS ON CAPITAL INFRASTRUCTURE
WHICH BRINGS BUDGET VERY MUCH IN LINE WITH OUR OWN
PRIORITIES. POPULAR AND PARLIAMENTARY REACTION TO
THE BUDGET IS POSITIVE, ALTHOUGH SOME MEMBERS OF MIDDLE
CLASS ARE CONCERNED AT HIGHER TAX RATES WHICH WILL
APPLY TO THEM. CARGO

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